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## FARM CREDITS.

DR. J. T. HOLDSWORTH,

VICE-PRESIDENT, THE BANK OF PITTSBURGH.

Even before the present business depression which has affected all parts of the country and every type of industry, but which has fallen with especially heavy weight upon farmers, the conviction has been growing that, admirable as our banking and credit machinery has become, by virtue largely of the Federal Reserve System, the financing and credit needs of one group in our economic organism, and that one in many respects the most important, the agricultural group, had not been adequately met. Despite the obvious fact recognized by men of all shades of thinking of the dominating importance of agriculture as our basic industry, upon which the prosperity of all depends, despite the object lesson of successful agricultural credit systems long in existence in Europe and elsewhere, and despite the years of agitation for a more adequate system of farm credits in this country, we have made but slight and slow progress toward the solution of this problem.

Adequate credit and management brains have made our industrial development during the last few decades the marvel and envy of the world. Denied in large measure both of these, our agricultural industry has languished compared with other economic activities. The drift of agriculture from a basis of ownership to that of tenancy has been recognized on the part of far-sighted men who perceive the gravity of the situation. On the side of production, or of the *science* of farming, each decade has marked real progress. The experiments and activities of the Department of Agriculture and of the various State agricultural colleges and experimental stations have raised to a high level of excellence many of the processes of agricultural production and have by means of the introduction of new types of grains and fruits, by the inculcation of better methods of seed selection, by irrigation and reclamation, converted vast barren areas into productive fields and orchards, and have increased enormously our national income.

Our shortcoming with reference to agriculture is rather that we have failed to develop the *business* of farming, particularly upon the

side of economical financing, marketing, and distributing of farm products. To be sure, we have had here and there illustrations of effective coöperation in selling and marketing, even in financing, that have pointed the way to a better order, but in the main the charge holds true that agriculture has lacked business organization and management, and particularly has it lacked adequate farm credit.

In our national economics the question of farm credit has had but small consideration. When it does protrude, as it most assuredly has of late, the casual observer, even the banker, generally speaking, is inclined to dismiss the matter with the statement that the farmer's needs have been well cared for by the establishment of the Federal Farm Loan System, by the agricultural credit provisions of the Federal Reserve Act, and by such recently organized Government agencies as the War Finance Corporation, the Cattle Loan pool, and otherwise. Again you hear it argued that the country banks, the farm mortgage, and the cattle loan companies are meeting the situation by extending the farmer all the credit he deserves.

As already noted, the recent business depression has fallen with particularly heavy weight upon the farmer, the price of whose product has been deflated to distressingly low levels as compared with the price of commodities for which his products must be exchanged. As a consequence there has been a marked trend toward farmers' and producers' organizations and quickened interest in the problem of adequate farm credit to enable the farmer to carry his products for more orderly distribution.

Despite the mistakes made by the agricultural bloc in the special session of Congress recently closed and a certain resulting animosity toward the agricultural group, or at least toward those who would seek to use the farmer and his interests for their own political aggrandizement, the problems of the farmer, particularly those of finance and credit, remain fundamental and clamorous for solution. However much we may disparage the leadership into whose hands farm legislation has temporarily fallen, we can not shut out the pressing need of this, our basic industry, nor close our eyes to the urgent need of a constructive program of relief.

Our system of deposit banking is not adapted to the peculiar requirements of the agricultural industry, nor indeed can it be so adapted in any large or effective way. Deposit banking depends for its safe functioning upon comparatively short-time loans, a large proportion of which must necessarily be of a liquid character. The law governing the operation of deposit banks must conform to and safe-

guard the tested economic principles underlying all such banking. Admittedly commercial banks, whether operating under national or State charter, can not in themselves serve and protect their depositors and the interests they are organized to foster, and at the same time engage in the long time credit operations required in agricultural credit. Where the local bank is not a member of the Federal Reserve System, nor holds close banking relations with a large city bank, these limitations are still more marked.

It is true that under the sections of the Federal Reserve Act which provide for the rediscount of agricultural paper having maturity of not more than six months a very considerable measure of assistance has been made available to the farmer. Again, the Federal Farm Loan System, the scope of whose operations was restricted by the interruptions of the war and by uncertainty as to the constitutionality of its bond issues, affords the basis for a very large measure of relief. This system, however, is for the most part effective only in the matter of acquiring farm lands and leaves the farmer without the means of equipping and operating his plant. Between the short-time borrowing through the banks, and in turn by rediscounting through the Federal Reserve Banks on the one hand and the long-time borrowing through the Federal Farm Loan Banks on the other, there is a wide and hitherto almost impassable gap demanding a bridge of intermediate credit to meet the farmer's seasonal needs. It is toward this objective that thought and effort must now be directed.

Temporary relief in this situation has been afforded through the operations of the War Finance Corporation. This device, however, must be regarded as only temporary, as must every such device in which the government interposes as a business agency to relieve an emergency. The economic future of this country will be safeguarded in proportion as there is insistence upon the principle that the government shall engage in business only when an emergency makes it absolutely necessary.

Though we have taken the position that deposit banking can not in the very nature of the case serve the needs of the farmer to an extent measurable with that extended to commerce and trade where the turnover is frequent and the security more flexible, it remains true that by adaptation and organization the farmer can approach commercial banks for short-term credit under much more favorable conditions than have obtained heretofore. A primary difficulty that has obstructed the access of the farmer to the resources of the deposit bank has been the lack of grading and warehousing of his product and his

inability or unwillingness, because of his failure to set up an accurate accounting system, to provide the bank with a financial statement of his affairs. The mooted question as to whether it is possible to operate a system of loans to farmers on their three or four months' notes, after the manner of loans to the manufacturer or merchant, has been answered in the affirmative in scores of instances by banks in different parts of the country serving different types of farming activity. Generally this practice has been introduced where diversified farming prevails, or in such types of farming as dairying, where the farmer receives a regular and dependable income. Where there is a steady flow of income in this way as distinguished from the "after the harvest" settlement of the general grain farmer, it is quite possible to operate loans on the basis of three or four months' tenor.

Solution of the problem of short-time agricultural credit has been made easier in some parts of the country and in some types of agricultural activities by scientific grading of products under the guidance of the State agricultural colleges or otherwise and by the provision of adequate warehouse facilities. Some of our great staples like cotton, grain, and tobacco are being brought under adequate grading and warehousing arrangements. On the contrary, one finds in State after State that because of improper storage facilities the farmer is compelled to rush his produce to the market as soon as it is harvested, with the result that he gets in an overflowing market very much lower returns than would be possible were he able with proper storage facilities to hold his produce for orderly distribution. The absence of grading accounts in many cases for the comparatively low return to the farmer for his apples, potatoes, and other staples. The inadequacy of storage or warehousing facilities leaves him dependent upon the wholesale buyer or dealer, and, too, deprives the bank of opportunity to finance the farmers' needs on the basis of warehouse receipts or other title to staple products. More and more banks through their associations and on their own initiative are working upon these problems, as are also farmers' organizations. As a result there is coming to be a better understanding of the problem and a growing disposition to cooperate in its solution.

Surely, even though slowly, the problem of short-term agricultural credit is being evolved, and it may confidently be expected that modifications and adaptations of the Federal Farm Loan System will ultimately provide a large measure of relief in the field of long-time credit. It is upon the twilight zone of intermediate credit that earnest thought and effort must be turned.

The farmer and stockman no less than the manufacturer and trader must have access to credit if he is to make necessary improvements and betterments, to purchase live stock and prepare them for market, to buy feed, seed, fertilizers and implements, to pay his labor, provide for general upkeep, and to meet all the various expenses of a going concern. Many necessary farm improvements, such as irrigation and reclamation, orcharding and stockbreeding, and the like, which are not immediately productive, require credit for terms running from a year to several years. Mortgage banks meet this need in part, but, generally speaking, they prefer to make their loans in larger sums, for longer periods, and upon improved property. The increased facilities of the national banks under the Federal Reserve System whereby they are authorized to make farm loans in their vicinity are, however, restricted to improved and unincumbered properties, and total loans of this character are limited to 25 per cent of the bank's capital and surplus, or one third of its time deposits. State banks generally have had a wider latitude in the matter of farm loans and in some sections this is the principal business of these institutions, but at best the limited resources of State banks inhibit their meeting this situation in a large or adequate measure.

The Federal Farm Loan Banks as now organized can not make loans for periods less than five years and only upon first mortgage. If the farmer buys his land through the Federal Farm Loan Bank, he will give a first mortgage. But where shall he obtain credit for stocking, equipping, and improving his farm? Some arrangement must be worked out in connection with this system or otherwise to provide for second-mortgage loans. And, finally, the Federal Reserve Banks can be utilized only where agricultural paper matures within six months. The recent ruling of the Federal Reserve Board admitting growers' drafts accepted by coöperative marketing associations, where the proceeds are to be used for agricultural purposes, to eligibility for rediscount, is fresh evidence of the desire of the Federal Reserve authorities to extend the system's facilities in aid of agriculture as far as possible.

Under a plan proposed by Senator Capper the Federal Farm Loan Banks would be empowered to make loans direct to farmers or cattlemen on proper security or through associations and to rediscount farm paper for banks and cattle companies. He would amend the Farm Loan Act to make this the business of a new department in each of the twelve Farm Loan Banks. His proposed credit measure would authorize the Farm Loan Board to offer to the public notes of the

Farm Loan Banks running up to two years and secured by the notes and collateral representing the loans made out of the fund.

Mr. Sydney Anderson, chairman of the Joint Congressional Commission of Agricultural Inquiry, believes the present banking machinery can be adjusted to meet the need for agricultural credit running from six months to three years. He would permit all existing financial institutions dealing directly with the public to make loans to farmers for periods of six months to three years, and to rediscount the paper with the Federal Farm Loan Banks or to act directly as the agent of the Land Banks in making these loans. The farm paper endorsed by the bank taking it to the Federal Land Bank would be made the basis of short-time debentures which would be sold to the investment public as farm bonds now are sold. He would authorize the Federal Land Bank to rediscount any of this paper with the Federal Reserve Bank when it had reached a maturity under six months, and also to buy and sell the debentures of the Federal Land Banks.

Through some such expansion or modification of the Federal Farm Loan System, rather than by the creation of a new type of institution, the urgent needs of agriculture for intermediate credit will probably be evolved.

DISCUSSION: E. S. BAYARD, EDITOR,

THE NATIONAL STOCKMAN AND FARMER.

I regret that I can't discuss Dr. Holdsworth's paper as it should be discussed, because I have not had an opportunity to see it, which is not his fault. But I agree with about all of it, so there is little chance for any argument. I don't know, but doubt, whether to provide intermediate credits we should resort to the land banks, as I understand him to suggest.

There are a few things that we should remember in discussing this problem, and perhaps you should remember that an editor is naturally better situated to discuss credit than cash. We should all remember that action and reaction are equal, but in opposite directions. We have had our action in the form of expansion of prices and credits throughout the business fabric. We now have our reaction, contraction of prices and credits. I have never seen, nor do I expect to see, any period of reaction in which credits will be called adequate for any class of business by those who are engaged in that business or in business dependent thereon or in sympathy therewith. For the expansion of one business era is such that the contraction of the other, even if far less in volume than the expansion, is sure to be rated as